

EDC

To: Finance Committee Work Group
From: Economic Development Committee
CC: Board of Selectmen
Alix Heilala, Treasurer
Jill Goldsmith, Town Manager

Date: April 28, 2015

Subject: Expansion of Hotel & Motel Tax

After a joint session with the Finance Committee Sub-group, the Economic Development Committee (EDC) has evaluated the three main issues regarding the proposed expansion of the Hotel/Motel tax.

- **Whether to increase the existing H/M tax from 4% to 6%.**

The EDC is unanimously opposed to this proposal. While in recent years Chatham has experienced a reduction of available Hotel/Motel units due to conversion to single family residential homes, the economic analysis shows that:

- No evidence has been provided to date of a reduction in H/M occupancy; in fact, H/M tax receipts have increased by 14% since 2010; and
- No evidence has been presented to date that conversions have resulted in a decrease in tax revenue, rather evidence was presented to the committees indicating conversions have resulted in a net gain in overall tax revenue to the town.

Further, the Town has not demonstrated a need for this additional revenue, and the EDC does not support taxation without cause as a source of revenue generation.

- **Whether the H/M tax should be extended to short term rentals.**

The EDC acknowledges there is a market trend which has and continues to result in an increase in the number of private residences that are rented. However, the EDC is unanimously opposed to this proposal for several reasons:

- Tax levy burden. Fundamental economic analysis shows that the burden of this tax will be borne primarily by the Property Owner, and not by the Renter as is widely believed. The elasticity of demand for a nonessential good such as a vacation rental supports the position that a Property Owner will be unlikely to 'pass on' this tax to a Renter and that the true cost of such a tax will largely come out of the pocket of the Property Owner. Property Owners already pay Real Estate taxes and the EDC strongly believes it is not in the best economic interests of the Town to levy additional taxes on Chatham Property Owners.
- Administrative requirements and costs. The Town already has an administrative system in place to monitor the relatively low and finite inventory of Hotels and Motels in Chatham; the existing

9.7% H/M tax is currently collected by the State, which then disburses Chatham's 4% share directly into the Town treasury. Because of the sheer number of residential properties that are or could be Short-Term Rentals (STR), and any residential property could be rented or be removed from rental market at any time, implementation of a tax extension to private residential homes will require the establishment of a complicated new administrative system potentially at significant cost to the Town. This new system would likely be responsible for identifying the quantity of STRs, regularly re-assessing this figure as home ownership changes; generating criteria for determining the eligibility of all rentals as STRs; scheduling inspections; establishing minimum standards; providing enforcement; etc... This may necessitate additional staff and administrative infrastructure, and the cost of this increased bureaucracy could offset the generated tax revenue. Additionally, it is unclear but possible that the State could take a significant share of the revenue generated.

- Competitive disadvantage with surrounding towns. If Chatham implements this tax, but other cape towns do not, Chatham will have a diminished relative value to prospective renters, and the Town will lose tourism business to these neighboring towns.
- Misperception of taxation inequity. As compared to Hotels and Motels, residential homes have a 3-5 times higher assessed Real Estate value *per bedroom unit*. As a result, a preliminary economic analysis prepared by members of the committees comparing the collected tax suggests that residential rentals actual pay more tax *per bedroom unit* than Hotels and Motels. Therefore, in the opinion of the EDC, a tax expansion is unnecessary to achieve parity.

Further, the town has not demonstrated a need for this additional revenue, and the EDC does not support taxation without cause as a source of revenue generation.

- **What to do with the additional revenue.**

In the event that the Town overrides the above EDC recommendations and elects to expand the H/M tax:

- There should be a dollar for dollar reduction elsewhere in the tax levy;
- The tax revenue generated from the expansion should be 100% earmarked for enhancement or marketing of the Tourism industry;
- A formal accounting of the implementation and administrative costs should be provided annually for comparison to actual revenues generated to determine the economic efficiency of the tax.

The EDC appreciates the opportunity to comment on this important matter and is available to answer any questions or for further discussion at your convenience.